

FINANCIAL REPORT  
VILLAGE OF PELLSTON  
February 28, 2005

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Village of Pellston</b>	County <b>Emmet</b>
Audit Date <b>2/28/05</b>	Opinion Date <b>9/16/05</b>	Date Accountant Report Submitted to State: <b>10/7/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

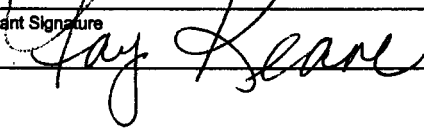
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Hill, Schroderus &amp; Co., LLP</b>			
Street Address <b>923 Spring Street; P.O. Box 695</b>	City <b>Petoskey</b>	State <b>MI</b>	ZIP <b>49770</b>
Accountant Signature 		Date <b>10/4/05</b>	

VILLAGE OF PELLSTON  
FINANCIAL REPORT  
February 28, 2005

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**Hill • Schroderus & Co., LLP**  
Certified Public Accountants & Consultants

September 16, 2005

Independent Auditors' Report

Village President and Council  
Village of Pellston, Michigan

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Village of Pellston, Michigan, as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Pellston, as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of March 1, 2004.

The management's discussion and analysis, budgetary comparison schedules and pension plan trend information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. For the management's discussion and analysis and the pension plan trend information, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The budgetary comparison schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hill, Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

**Village of Pellston  
Management's Discussion and Analysis  
February 28, 2005**

**Overview of the Basic Financial Statements**

The Village of Pellston's basic financial statements include government-wide financial statements, fund financial statements and notes to the financial statements. The financial report also contains required supplemental information in addition to the basic financial statements. This is the first year of implementation of GASB Statement No. 34, so prior year numbers are not presented within the Management's Discussion and Analysis. A comparative analysis will be provided in future years when prior year information is available.

**Government-wide Financial Statements**

The government-wide financial statements report information on all of the Village's funds. The internal service fund is consolidated with the governmental funds to present the primary government. The Downtown Development Authority, which is considered to be a component unit, is presented, but is not part of the primary government. The government-wide statements are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector, for-profit business.

The Statement of Net Assets displays all of the Village's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the Village (general government, public safety, public works, etc.), which are supported by the Village's general revenues (property taxes, state shared revenues, interest income, etc.).

**Fund Financial Statements**

The fund financial statements report on the governmental and proprietary funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The Village of Pellston maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for these funds, which are all considered major funds.

The Village maintains one proprietary fund, the Motor Vehicle and Equipment Fund. This fund is similar to a for-profit business, as it charges a fee for its service. Its information is presented in the proprietary fund statement of net assets, the statement of revenues, expenses and changes in fund net assets, and the statement of cash flows.

## Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### Government-wide Financial Analysis

The table below summarizes the Village's statement of net assets as of February 28, 2005:

<b>Village of Pellston</b>	
<b>Statement of Net Assets</b>	
<b>February 28, 2005</b>	
	<u>Governmental Activities</u>
<b>Assets</b>	
Current and other assets	\$ 450,550
Capital assets - net of accum dep	<u>1,180,995</u>
Total assets	<u>1,631,545</u>
<b>Liabilities</b>	
Current liabilities	116,807
Noncurrent liabilities	<u>525,177</u>
Total liabilities	<u>641,984</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	578,252
Restricted	62,712
Unrestricted	<u>348,597</u>
Total net assets	<u>\$ 989,561</u>

At the end of the fiscal year, the Village of Pellston is able to report positive balances in all three categories of net assets. The largest portion of the Village's net assets is its investment in capital assets (land, construction in progress, buildings, equipment, vehicles and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets in providing services to its residents, consequently these assets are not available for future spending.

The second portion of net assets, restricted net assets, represents resources that are subject to external restrictions on how they may be used. This would include restrictions for debt service and capital projects.

The remaining portion of net assets, unrestricted net assets, may be used at the Village's discretion to meet ongoing obligations.

The results for the Village as a whole are reported in the Statement of Activities, which is summarized below:

**Village of Pellston  
Statement of Activities  
Year Ended February 28, 2005**

	<u>Governmental Activities</u>
<b>Revenue</b>	
Program revenue:	
Charges for services	\$ 45,663
Grants and contributions	296,327
General revenue:	
Property taxes	159,126
State shared revenues	90,313
Interest income	2,805
Sale of capital assets	189,270
Other	3,652
Total revenues	<u>787,156</u>
<b>Function/Program Expenses</b>	
General government	73,399
Public safety	95,402
Public works	182,609
Health and welfare	1,200
Community and economic development	5,680
Recreation and culture	27,093
Interest on long-term debt	37,810
Total expenses	<u>423,193</u>
<b>Change in net assets</b>	363,963
<b>Net assets - beginning of year</b>	<u>625,598</u>
<b>Net assets - end of year</b>	<u><u>\$ 989,561</u></u>

As reported above, the Village recorded approximately \$423,000 of expenses. These expenses were funded 11% by charges for services and 70% by grants and contributions. The Village's remaining activities were funded by general revenues, such as property taxes and state shared revenues.

The Village experienced an increase in net assets primarily due to the sale of property, resulting in net proceeds of approximately \$190,000. Additionally, capital grants were obtained for much of the capital outlay in the public safety department.

**Fund Financial Analysis**

As of year end, the governmental funds reported a combined fund balance of approximately \$412,000, which is 35% more than the beginning of the year (\$304,000). The increase was mainly due to the sale of property in the General Fund, which experienced an increase of \$159,000 (115% of its original fund balance). The Major Street and Debt Funds had minimal increases in fund balances. The Fire Fund decreased 90%

from its original fund balance due to significant capital outlay expenditures and the payoff of a fire truck loan. The Local Street Fund did not keep pace with State funding for its street maintenance, as its fund balance decreased approximately 49%.

The Internal Service Fund had a minimal decrease in its net assets, \$2,500, which was approximately 8% of its net assets at the beginning of the year.

### General Fund Budgetary Highlights

Final budgeted revenues remained consistent with original budgeted revenues. Final budgeted expenditures increased from the original budgeted amounts by approximately \$61,000. This was due to increased anticipated expenditures for general government, public works and community and economic development.

Final revenues were higher than final budgeted amounts by approximately \$220,000. This was mainly due to the sale of property for \$190,000 and \$30,000 Community Development Block grant dollars received for street and parking lot improvements.

Final expenditures were lower than final budgeted amounts by approximately \$48,000. This was mainly due to less than anticipated expenditures for the department of public works, parks and recreation, village proper and other general government expenditures. These less than anticipated expenditures were partially offset by greater than anticipated expenditures for economic development, which encompassed street and parking lot improvements from the Community Development Block Grant.

### Capital Assets

At February 28, 2005 the Village had \$1.9 million invested in capital assets. The following table summarizes the capital asset activity for the year:

**Village of Pellston  
Capital Asset Activity  
Year Ended February 28, 2005**

	March 1, 2004	Additions	Disposals	February 28, 2005
Land	\$ 66,300	\$ -	\$ (20,000)	\$ 46,300
Construction in progress	-	51,165	-	51,165
Buildings	364,000	-	-	364,000
Equipment	14,258	35,640	-	49,898
Vehicles	469,249	250,000	-	719,249
Infrastructure	715,000	-	-	715,000
Total capital assets	1,628,807	336,805	(20,000)	1,945,612
Less accum depreciation	(666,137)	(98,480)	-	(764,617)
Net capital assets	<u>\$ 962,670</u>	<u>\$ 238,325</u>	<u>\$ (20,000)</u>	<u>\$ 1,180,995</u>

The majority of the capital assets additions pertained to construction of road and parking lot improvements for the Community Development Block Grant and the purchase of fire department vehicles and equipment.



## Debt Outstanding

At the end of the year, the Village had \$603,000 in bonds outstanding. Below is the debt activity for the year:

**Village of Pellston  
Debt Activity  
Year Ended February 28, 2005**

	<u>March 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>February 28, 2005</u>
Bonds, notes and land contracts payable	<u>\$ 722,765</u>	<u>\$ 77,532</u>	<u>\$ (197,554)</u>	<u>\$ 602,743</u>

The Village's land contract was refinanced by a promissory note. No other debt was issued during the year.

## Financial Contact

The Village's financial statements are designed to present users with a general overview of the Village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Village Clerk, Village of Pellston.

**Village of Pellston  
Statement of Net Assets  
February 28, 2005**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Downtown Development Authority</u>
<b><u>Assets</u></b>		
<b>Current Assets</b>		
Cash	\$ 362,493	\$ -
Taxes receivable	24,211	-
Due from other governmental units	60,612	-
Due from primary government	-	3,209
Prepaid expenses	3,234	-
Total current assets	<u>450,550</u>	<u>3,209</u>
<b>Noncurrent Assets</b>		
Capital assets	1,945,612	-
Less: accumulated depreciation	<u>(764,617)</u>	<u>-</u>
Total noncurrent assets	<u>1,180,995</u>	<u>-</u>
Total assets	<u><u>\$ 1,631,545</u></u>	<u><u>\$ 3,209</u></u>
<b><u>Liabilities and Net Assets</u></b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 23,680	\$ -
Accrued expenses	1,918	-
Due to component unit	3,209	-
Accrued interest	10,434	-
Notes payable, due within one year	32,566	-
Bonds payable, due within one year	<u>45,000</u>	<u>-</u>
Total current liabilities	<u>116,807</u>	<u>-</u>
<b>Noncurrent Liabilities</b>		
Notes payable, noncurrent	160,177	-
Bonds payable, noncurrent	<u>365,000</u>	<u>-</u>
Total noncurrent liabilities	<u>525,177</u>	<u>-</u>
Total liabilities	<u>641,984</u>	<u>-</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	578,252	-
Restricted for:		
Construction for comm. development	2,000	-
Debt service	60,712	-
Unrestricted	<u>348,597</u>	<u>3,209</u>
Total net assets	<u>989,561</u>	<u>3,209</u>
Total liabilities and net assets	<u><u>\$ 1,631,545</u></u>	<u><u>\$ 3,209</u></u>

See accompanying notes to the basic financial statements. 7

**Village of Pellston  
Statement of Activities  
For the Year Ended February 28, 2005**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Governmental Activities	Component Unit Downtown Development Authority
Primary Government					
Governmental activities:					
General government	\$ 73,399	\$ -	\$ -	\$ (73,399)	\$ -
Public safety	95,402	45,033	730	128,161	-
Public works	182,609	-	87,017	(95,592)	-
Health and welfare	1,200	-	-	(1,200)	-
Community and economic development	5,680	630	-	25,730	-
Recreation and culture	27,093	-	-	(27,093)	-
Interest on long-term debt	37,810	-	-	(37,810)	-
Total primary government	\$ 423,193	\$ 45,663	\$ 87,747	\$ (81,203)	-
Component Unit					
Downtown Development Authority	\$ -	\$ -	\$ -	-	-
General revenues:					
Property taxes				159,126	1,270
State shared revenues				90,313	-
Interest income				2,805	-
Sale of capital assets				189,270	-
Other				3,652	-
Total general revenues				445,166	1,270
Change in net assets				363,963	1,270
Net assets - beginning of year				625,598	1,939
Net assets - end of year				\$ 989,561	\$ 3,209

**Village of Pellston  
Balance Sheet  
Governmental Funds  
February 28, 2005**

**Assets**

	General	Major Street	Local Street	Fire	1996 GO Debt	1996 MI Transportation GO Debt	Total Governmental Funds
Cash	\$ 226,671	\$ 27,314	\$ 9,702	\$ 31,987	\$ 51,087	\$ 1,641	\$ 348,402
Taxes receivable	16,227	-	-	-	7,984	-	24,211
Due from other governmental units	44,893	10,136	5,583	-	-	-	60,612
Due from other funds	24,997	-	-	-	-	-	24,997
Prepaid expenditures	3,234	-	-	-	-	-	3,234
Total assets	\$ 316,022	\$ 37,450	\$ 15,285	\$ 31,987	\$ 59,071	\$ 1,641	\$ 461,456

**Liabilities and Fund Balances**

**Liabilities**

Accounts payable	\$ 12,980	\$ -	\$ -	\$ 10,700	\$ -	\$ -	\$ 23,680
Accrued expenditures	1,918	-	-	-	-	-	1,918
Due to other funds	-	662	4,393	15,404	-	-	20,459
Due to component unit	3,209	-	-	-	-	-	3,209
Total liabilities	18,107	662	4,393	26,104	-	-	49,266

**Fund balances**

Reserved for:							
Prepays	3,234	-	-	-	-	-	3,234
Construction for comm. development	2,000	-	-	-	-	-	2,000
Debt service	-	-	-	-	59,071	1,641	60,712
Unreserved:							
Undesignated	292,681	36,788	10,892	5,883	-	-	346,244
Total fund balances	297,915	36,788	10,892	5,883	59,071	1,641	412,190
Total liabilities and fund balances	\$ 316,022	\$ 37,450	\$ 15,285	\$ 31,987	\$ 59,071	\$ 1,641	\$ 461,456

**Village of Pellston**  
**Reconciliation of Governmental Funds Balance Sheet to the**  
**Statement of Net Assets**  
**February 28, 2005**

<b>Total Fund Balance - Governmental Funds</b>	\$ 412,190
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of net assets, these assets are capitalized and depreciated  
over their estimated useful lives.

Governmental capital assets	1,760,105
Accumulated depreciation	(646,977)

Governmental funds report interest when due, whereas in the statement of net assets, interest is accrued on outstanding bonds and notes.	(10,434)
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Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	(552,057)
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The internal service fund is used to charge motor vehicle usage costs to various departments within the Village. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.	26,734
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<b>Net Assets of Governmental Activities</b>	<u>\$ 989,561</u>
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**Village of Pellston**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended February 28, 2005**

	General	Major Street	Local Street
<b>Revenues</b>			
Property taxes	\$ 106,243	\$ -	\$ -
Federal grants	30,780	-	-
State shared revenues	90,313	54,568	32,449
Contributions from local units	-	-	-
Charges for services	630	-	-
Interest income	1,475	257	113
Other	3,652	-	-
	<hr/>	<hr/>	<hr/>
Total revenues	233,093	54,825	32,562
	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>			
Current:			
General government	71,899	-	-
Public safety	4,557	-	-
Public works	66,941	44,710	35,401
Health and welfare	1,200	-	-
Community and economic development	56,845	-	-
Recreation and culture	24,213	-	-
Debt service	17,663	-	-
	<hr/>	<hr/>	<hr/>
Total expenditures	243,318	44,710	35,401
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	(10,225)	10,115	(2,839)
	<hr/>	<hr/>	<hr/>
<b>Other financing sources (uses)</b>			
Sale of property	189,270	-	-
Operating transfers in	-	-	-
Operating transfers out	(20,000)	(7,826)	(7,826)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	169,270	(7,826)	(7,826)
	<hr/>	<hr/>	<hr/>
<b>Net change in fund balances</b>	159,045	2,289	(10,665)
	<hr/>	<hr/>	<hr/>
<b>Fund balances - beginning of year</b>	138,870	34,499	21,557
	<hr/>	<hr/>	<hr/>
<b>Fund balances - end of year</b>	<u>\$ 297,915</u>	<u>\$ 36,788</u>	<u>\$ 10,892</u>

See accompanying notes to the basic financial statements.

Fire	1996 GO Debt	1996 MI Transportation GO Debt	Total Governmental Funds
\$ -	\$ 52,883	\$ -	\$ 159,126
134,600	-	-	165,380
730	-	-	178,060
43,200	-	-	43,200
45,033	-	-	45,663
618	278	14	2,755
-	-	-	3,652
224,181	53,161	14	597,836
-	-	-	71,899
228,926	-	-	233,483
-	-	-	147,052
-	-	-	1,200
-	-	-	56,845
-	-	-	24,213
62,542	48,625	15,652	144,482
291,468	48,625	15,652	679,174
(67,287)	4,536	(15,638)	(81,338)
-	-	-	189,270
20,000	-	15,652	35,652
-	-	-	(35,652)
20,000	-	15,652	189,270
(47,287)	4,536	14	107,932
53,170	54,535	1,627	304,258
\$ 5,883	\$ 59,071	\$ 1,641	\$ 412,190

**Village of Pellston**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**For the Year Ended February 28, 2005**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 107,932</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation.	
Expenditures for capital assets	234,404
Current year depreciation	(85,988)
Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of principal paid on long-term debt.	108,291
Interest on long-term debt is recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	1,800
The internal service fund is used to charge motor vehicle usage costs to various departments within the Village. The net revenue (expense) of the internal service fund is included in the governmental activities in the statement of activities.	<u>(2,476)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 363,963</u></b>



Village of Pellston  
Statement of Net Assets  
Proprietary Funds  
February 28, 2005

	Governmental Activities- Internal Service Fund
<b><u>Assets</u></b>	
<b>Current Assets</b>	
Cash	\$ 14,091
<b>Noncurrent Assets</b>	
Capital assets	185,507
Less: accumulated depreciation	(117,640)
Total noncurrent assets	67,867
Total assets	\$ 81,958
<b><u>Liabilities and Net Assets</u></b>	
<b>Current Liabilities</b>	
Due to other funds	\$ 4,538
Notes payable - current	11,657
Total current liabilities	16,195
<b>Noncurrent Liabilities</b>	
Notes payable - noncurrent	39,029
Total liabilities	55,224
<b>Net Assets</b>	
Invested in capital assets, net of related debt	17,181
Unrestricted	9,553
Total net assets	26,734
Total liabilities and net assets	\$ 81,958

Village of Pellston  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Fund  
For the Year Ended February 28, 2005

	Governmental Activities Internal Service Fund
<b>Operating revenues</b>	
Charges for services	\$ 45,816
<b>Operating expenses</b>	
Personal services	15,054
Supplies	7,770
Utilities	2,225
Insurance	2,617
Repairs	4,765
Depreciation	12,492
Total operating expenses	44,923
Operating income (loss)	893
<b>Nonoperating revenues (expenses)</b>	
Interest revenue	50
Interest expense	(3,419)
Total nonoperating revenues (expenses)	(3,369)
<b>Change in net assets</b>	(2,476)
<b>Total net assets - beginning</b>	29,210
<b>Total net assets - ending</b>	\$ 26,734

**Village of Pellston  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended February 28, 2005**

	<u>Governmental Activities- Internal Service Fund</u>
<b>Cash flows from operating activities</b>	
Cash received from other funds for services	\$ 50,866
Cash payments to suppliers for goods and services	(14,224)
Cash payments to employees for services	(15,054)
	<u>21,588</u>
Net cash provided (used) by operating activities	<u>21,588</u>
<b>Cash flows from capital and related financing activities</b>	
Repayment of note principal	(11,042)
Interest paid on notes	(3,419)
	<u>(14,461)</u>
Net cash provided (used) for capital and related financing activities	<u>(14,461)</u>
<b>Cash flows from investing activities</b>	
Interest received	<u>50</u>
Net increase (decrease) in cash	7,177
<b>Cash, beginning</b>	<u>6,914</u>
<b>Cash, ending</b>	<u><u>\$ 14,091</u></u>
Reconciliation of operating income to net cash provided (used by) operating activities	
Operating income (loss)	\$ 893
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	12,492
Increase (decrease) in amounts due to other funds	4,538
(Increase) decrease in amounts due from other funds	<u>3,665</u>
Total adjustments	<u>20,695</u>
Net cash provided (used) by operating activities	<u><u>\$ 21,588</u></u>

**VILLAGE OF PELLSTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**February 28, 2005**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Pellston was incorporated under the provisions of Act 3 of 1895. The Village operates under a Council-President form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

The Village's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds and similar component units in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the Village of Pellston:

**REPORTING ENTITY**

These financial statements present the Village (the primary government) and its component unit. As defined by GASBS No. 14, component units are legally separate entities that are included in the Village's reporting entity because of the significance of their operating or financial relationships with the Village. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Discretely Presented Component Unit**

Downtown Development Authority – The Downtown Development Authority, which was established pursuant to the provisions of Public Act 197 of 1975, as amended, is governed by a nine person board. The purpose of the Authority is to prevent the deterioration and promote economic growth within a specified business district. The Authority is funded by a specified annual property tax capture of a portion of all units' levies which may only be used for activities within the tax increment finance district. Separate financial statements for the Downtown Development Authority are not issued.

**BASIC FINANCIAL STATEMENTS – OVERVIEW**

The Village of Pellston's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from legally separate component units for which the primary government is financially accountable.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS**

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the Village as an entity and the change in the Village's net assets resulting from the current year's activities.

The internal service fund is consolidated into the governmental column when presented at the government-wide level. This is because the principal users of the internal service are the Village's governmental activities. The net profit/loss in the internal service fund is allocated to the functional activity (public safety, public works, etc.) based upon usage.

In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Village's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

The program revenues must be directly associated with the function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

**BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS**

The financial transactions of the Village are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental or business-type categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

Governmental Funds

The measurement focus of the governmental funds in the Fund Financial Statements is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the Village:

**General Fund** – The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

**Major and Local Street Funds** – The Street Funds account for the operation of the street departments. Primary financing is provided by the Village's share of state gasoline taxes. State law requires these gasoline taxes be used to maintain streets.

**Fire Fund** – The Fire Fund accounts for the operation of the Fire Department. Funding is provided by local townships, grants and transfers from the General Fund which the Village uses to provide public safety services.

**1996 General Obligation and 1996 Michigan Transportation General Obligation Debt Funds** – The Debt Funds accounts for the payment of interest and principal on long-term bonds.

Proprietary Funds

The focus of the proprietary funds is upon the determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to for-profit businesses. The following is a description of the non-major proprietary fund of the Village:

**Motor Vehicle and Equipment Fund** – The Motor Vehicle and Equipment Fund is an internal service fund. This fund accounts for the cost of acquiring, maintaining and providing vehicle and equipment usage to various Village departments.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing/delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Village's proprietary fund are charges to customers for services. Operating expenses for this fund includes the cost of sales (wages, insurance and rent) and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

BASIS OF ACCOUNTING – CONTINUED

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

All proprietary funds, pension trust funds and agency funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from other funds" on the balance sheet of the fund financial statements and are eliminated on the Statement of Net Assets of the government-wide financial statements.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED**

**Capital Assets**

Capital assets, which include property, buildings, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are recorded by the Village when the initial individual costs are equal to or greater than \$5,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Streets, Curbs and Gutters	10 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years

**Long-Term Obligations**

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**COMPARATIVE DATA**

Comparative data for the prior year is not included in the Village's financial statements.



**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED**

**ACCOUNTING CHANGE**

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Effective March 1, 2004, the Village implemented the provisions of GASB No. 34. Changes to the Village's financial statements as a result of GASB No. 34 are as follows:

- A Management's Discussion and Analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations.
- Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using full accrual accounting for all of the Village's activities.
- A change in the fund financial statements with a focus on major funds.
- Capital assets in the governmental activities column of the Statement of Net Assets include assets which were previously reported in the General Fixed Asset Account Group.
- Liabilities in the governmental column of the Statement of Net Assets include bonds and other long-term obligations which were previously reported in the General Long-Term Debt Account Group.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all operating funds of the Village. Budgetary control is legally maintained at the fund level.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 1, the Village President submits to the Village Council a proposed operating budget for the upcoming fiscal year. The operating budget includes proposed expenditures/expenses and the means of financing them.
2. A public hearing is conducted at the Village Hall to obtain taxpayer comments.
3. Prior to March 1, the fund budgets are legally enacted through passage of resolutions.
4. The Village President is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures/expenses of any fund must be approved by the Village Council.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgeted amounts are as originally adopted, or as amended by the Village Council.
7. Encumbrances, which are commitments related to unperformed contracts for goods or services, lapse at year end and are re-appropriated as part of the subsequent year's budget.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED**

**Excess of Expenditures Over Appropriations in Budgeted Funds**

The Village is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. During the year, the Village incurred expenditures in these funds which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Appropriation</u>	<u>Amount of Expenditures</u>	<u>Variance</u>
Major Street	\$ 40,077	\$ 52,536	\$ (12,459)
Local Street	31,777	43,227	(11,450)
Fire	248,880	291,468	(42,588)

**NOTE 3: CASH**

Michigan Compiled Laws, Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village's deposits and investment policy are in accordance with statutory authority.

**Cash Deposits**

At February 28, 2005, the carrying amount of the Village's deposits was \$362,493 and the bank balance was \$367,009.

Of the above balance in cash, \$102,000 was covered by federal depository insurance. The remaining amount was uninsured and uncollateralized. The Village may experience significant fluctuations in deposit balances through the year.

**NOTE 4: PROPERTY TAXES**

Property taxes are levied and become a lien on property as of July 1 on the State taxable valuation of property in the Village as of the preceding December 31. The Village bills and collects its own property taxes. Property taxes are recognized as revenue in the year for which they are levied.

The Village is permitted by charter to levy taxes, subject to State Headlee and Truth in Taxation provisions, up to \$15 per \$1,000 of taxable valuation for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on general obligation long-term debt. The 2004 State taxable valuation of the Village of Pellston totaled \$10,574,002.

The tax rates for the year ended February 28, 2005, were as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General governmental services	10.0000 per \$1,000
Payment on principal and interest on general obligation long-term debt	4.9925 per \$1,000

**NOTE 5: INTERFUND RECEIVABLES AND PAYABLES**

The interfund balances within the primary government are as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ 24,997	\$ -
Major Street Fund	-	662
Local Street Fund	-	4,393
Fire Fund	-	15,404
Internal Service Funds	-	4,538
	<u>\$ 24,997</u>	<u>\$ 24,997</u>

The interfund balances between the primary government and the component unit are as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ -	\$ 3,209
Downtown Mgmt Authority	3,209	-
	<u>\$ 3,209</u>	<u>\$ 3,209</u>

The interfund balances are mainly for property taxes, fringe benefits, and supplies.

**NOTE 6: INTERFUND TRANSFERS**

Operating transfers within the primary government are as follows:

	Transfer In	Transfer Out
General Fund	\$ -	\$ 20,000
Major Street Fund	-	7,826
Local Street Fund	-	7,826
Fire Fund	20,000	-
1996 MI Transp GO Debt Fund	15,652	-
	<u>\$ 35,652</u>	<u>\$ 35,652</u>

The operating transfers are mainly for public safety operations and debt service.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 7: CAPITAL ASSETS**

Capital asset activity of the Village's primary government for the current year was as follows:

	<u>Balance</u> <u>March 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>February 28, 2005</u>
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 66,300	\$ -	\$ (20,000)	\$ 46,300
Contruction in progress	<u>-</u>	<u>51,165</u>	<u>-</u>	<u>51,165</u>
Subtotal	<u>66,300</u>	<u>51,165</u>	<u>(20,000)</u>	<u>97,465</u>
Capital Assets Being Depreciated:				
Buildings	364,000	-	-	364,000
Equipment	14,258	35,640	-	49,898
Vehicles	469,249	250,000	-	719,249
Infrastructure	<u>715,000</u>	<u>-</u>	<u>-</u>	<u>715,000</u>
Subtotal	<u>1,562,507</u>	<u>285,640</u>	<u>-</u>	<u>1,848,147</u>
Less Accumulated Depreciation:				
Buildings	(116,260)	(7,280)	-	(123,540)
Equipment	(14,258)	(849)	-	(15,107)
Vehicles	(224,119)	(54,601)	-	(278,720)
Infrastructure	<u>(311,500)</u>	<u>(35,750)</u>	<u>-</u>	<u>(347,250)</u>
Subtotal	<u>(666,137)</u>	<u>(98,480)</u>	<u>-</u>	<u>(764,617)</u>
Net Capital Assets Being Depreciated	<u>896,370</u>	<u>187,160</u>	<u>-</u>	<u>1,083,530</u>
Governmental Activities Net Capital Assets	<u>\$ 962,670</u>	<u>\$ 238,325</u>	<u>\$ (20,000)</u>	<u>\$ 1,180,995</u>

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 7: CAPITAL ASSETS – CONTINUED

Depreciation expense was charged to the primary government as follows:

### Governmental Activities

General government	\$ 1,500
Public safety	45,158
Public works	36,450
Recreation and culture	2,880
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>12,492</u>
Total depreciation expense - governmental activities	<u>\$ 98,480</u>

### Construction Commitments

The Village has an active construction project at year-end.

Project	Project Estimates	Expended to 02/28/05	Committed	Future Financing
Downtown Revitalization	<u>\$ 1,728,682</u>	<u>\$ 51,165</u>	<u>\$ 1,677,817</u>	To be provided by Federal government and private investment by benefited parties.

### Proprietary Fund Type Property, Plant and Equipment

Proprietary fund type property, plant and equipment at February 28, 2005 are summarized as follows:

	Internal Service
Buildings	\$ 35,000
Equipment	14,258
Vehicles	<u>136,249</u>
Total	185,507
Less: accumulated dep.	<u>(117,640)</u>
Net	<u>\$ 67,867</u>

**NOTE 8: LEASE AGREEMENT WITH THE FRIENDSHIP CENTERS**

The Village of Pellston senior center building was constructed on land leased to the Friendship Centers for a term of 20 years starting on September 1, 1986. This lease will automatically renew for an additional 20 years, unless the lessee cancels at the end of the first 20 years. At the expiration of this lease, the property and building will revert to the Village. During the term of the lease, the lessee agrees to provide programs primarily for the benefit of senior citizens. The lessor agrees to provide snowplowing, water service and pay for up to \$1,200 of utilities per year.

**NOTE 9: DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The Village of Pellston participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

**Funding Policy**

Members of the Village of Pellston are required to contribute 3% of their annual compensation. The Village is required to contribute any additional amounts necessary to fund the system using the actuarial basis specified by statute. The contribution requirements of plan members and the Village are established and may be amended by the MERS board.

**Annual Pension Cost**

For the fiscal year ended February 28, 2005, the Village's required and actual contributions were \$1,445. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal funding method. Significant actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses); and (b) projected salary increases of 4.50% per year. Both (a) and (b) included an inflation component of 3% to 4%. The actuarial value of the Village's assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. The Village's unfunded actuarial accrued liabilities are amortized by a level percent of payroll contributions over a 30 year period.

**Three-Year Trend Information for the Village of Pellston**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
02-28-03	\$ 794	100%	-
02-29-04	1,645	100%	-
02-28-05	1,445	100%	-

Additional trend information may be found within the Required Supplemental Information section of the financial statements.

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 10: LONG-TERM DEBT

The following is a summary of the Village's long-term debt transactions for the year ended February 28, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental Activities</b>					
Bonds and notes payable:					
General obligation bonds	\$ 450,000	\$ -	\$ (40,000)	\$ 410,000	\$ 45,000
Land contract	83,532	-	(83,532)	-	-
Promissory notes	189,233	77,532	(74,022)	192,743	32,566
Total governmental activities long-term liabilities	<u>\$ 722,765</u>	<u>\$ 77,532</u>	<u>\$ (197,554)</u>	<u>\$ 602,743</u>	<u>\$ 77,566</u>

Long-term liabilities payable at February 28, 2005 is composed of the following individual issues:

### Bonds and Notes (Governmental Activities):

\$475,000, 1996 general obligation bonds due in annual installments of \$35,000 to \$55,000 through May 1, 2011, interest at 5.40 to 5.90 percent.	\$315,000
\$150,000, 1996 Michigan Transportation general obligation bonds due in annual installments of \$10,000 to \$20,000 through May 1, 2011, interest at 5.40 to 5.90 percent.	95,000
\$65,000, 1996 promissory note due in annual installments of \$6,631, including interest at 5.61 percent, through April 2012.	40,921
\$84,115, 1997 promissory note due in quarterly installments of \$2,745, including interest at 5.48 percent, through December 2007.	30,225
\$54,000, 2003 promissory note due in annual installments of \$3,000 to \$5,000 through October 1, 2013, interest at 4.50 percent.	50,000
\$77,532, 2004 promissory note due in monthly installments of \$1,416 through October 4, 2009, interest at 3.65 percent.	<u>71,597</u>
Total governmental activities long-term liabilities	<u>\$602,743</u>

**NOTE 10: LONG-TERM DEBT – CONTINUED**

**Bonds and Notes (Governmental Activities) - CONTINUED**

The annual requirements to amortize all general obligation bonds and notes outstanding, as of February 28, 2005, are as follows:

Annual Requirements to Amortize Outstanding Bonds and Notes  
February 28, 2005

Year Ending February 28	General Obligation		Notes	
	Principal	Interest	Principal	Interest
2006	\$ 45,000	\$ 21,993	32,566	8,615
2007	45,000	19,551	34,880	7,076
2008	50,000	16,938	36,950	5,474
2009	60,000	13,870	26,756	3,771
2010	65,000	10,337	20,775	2,658
2011 - 2015	145,000	8,667	40,816	4,592
Total	<u>\$ 410,000</u>	<u>\$ 91,356</u>	<u>\$ 192,743</u>	<u>\$ 32,186</u>

**NOTE 11: COMMUNITY DEVELOPMENT BLOCK GRANT**

The Village of Pellston received a Community Development Block Grant from the U.S. Department of Housing and Urban Development. This grant will provide funding for road and parking lot improvements, which will allow for the private investment of a new professional center in the downtown Village of Pellston. The grant period is from May 1, 2004 through April 30, 2006, in which time the Village will receive a total of \$174,085 of federal funds. The federal dollars, along with an additional \$20,085 contributed by the Village, will fund road and parking lot improvements. Private contributions will total \$1,534,512 for the construction of the professional building.

**NOTE 12: RESERVED FUND BALANCES/RESTRICTED NET ASSETS**

**Major Governmental Funds**

Reserved for prepaids – The General Fund has \$3,234 reserved for prepaid amounts.

Reserved for CDBG – The General Fund has \$2,000 reserved for Community Development Block Grant expenditures.

Reserved for debt service – The Debt Service Funds have \$60,712 reserved for debt service and related costs.



**NOTE 13: RISK MANAGEMENT**

The Village is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village belongs to the Michigan Municipal League Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Village pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the Village could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.

**Village of Pellston**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended February 28, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Over/(Under)</u>
<b>Beginning of year fund balance</b>	\$ 123,940	\$ 123,940	\$ 138,870	\$ 14,930
<b>Resources (inflows)</b>				
Property taxes	113,263	113,263	106,243	(7,020)
Federal grants	-	-	30,780	30,780
State shared revenues	98,600	98,600	90,313	(8,287)
Charges for services	800	800	630	(170)
Interest income	1,500	1,500	1,475	(25)
Sale of property	-	-	189,270	189,270
Other	1,550	1,550	3,652	2,102
	<u>339,653</u>	<u>339,653</u>	<u>561,233</u>	<u>221,580</u>
Amounts available for appropriation				
<b>Charges to appropriations (outflows)</b>				
General government				
Council	2,800	2,800	2,975	175
President	6,100	6,200	7,020	820
Clerk	11,800	11,700	9,412	(2,288)
Treasurer	5,500	5,500	5,062	(438)
Elections	1,100	1,200	1,133	(67)
Village hall	8,100	10,450	8,504	(1,946)
Village proper	30,700	35,825	23,331	(12,494)
Legal	5,000	5,000	5,150	150
Other	12,500	20,500	9,312	(11,188)
Public safety				
Marshall	5,000	5,000	4,557	(443)
Public works				
Department of public works	63,900	78,900	41,023	(37,877)
Sidewalks	5,000	5,000	3,942	(1,058)
Street lighting	16,000	16,000	13,339	(2,661)
Refuse collection/disposal	1,000	1,500	1,737	237
Clean up	7,500	7,000	6,900	(100)
Health and welfare				
Friendship Centers	1,700	2,900	1,200	(1,700)
Community and economic development				
Planning and zoning	3,000	3,400	5,620	2,220
Economic development	9,000	21,100	51,225	30,125
Recreation and cultural				
Parks and recreation	20,700	24,900	18,884	(6,016)
Library	-	500	500	-
Historical	300	4,800	4,829	29
Debt service	12,000	19,500	17,663	(1,837)
Transfer to Fire Fund	22,000	22,000	20,000	(2,000)
	<u>250,700</u>	<u>311,675</u>	<u>263,318</u>	<u>(48,357)</u>
<b>Total charges to appropriations</b>				
	<u>\$ 88,953</u>	<u>\$ 27,978</u>	<u>\$ 297,915</u>	<u>\$ 269,937</u>
<b>Ending budgetary fund balance</b>				

**Village of Pellston**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**For the Year Ended February 28, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Over/(Under)</u>
<b>Beginning of year fund balance</b>	\$ 35,421	\$ 35,421	\$ 34,499	\$ (922)
<b>Resources (inflows)</b>				
State shared revenues	49,000	49,000	54,568	5,568
Interest income	<u>300</u>	<u>300</u>	<u>257</u>	<u>(43)</u>
Amounts available for appropriation	<u>84,721</u>	<u>84,721</u>	<u>89,324</u>	<u>4,603</u>
<b>Charges to appropriations (outflows)</b>				
Public works				
Road repair and maintenance	32,250	32,250	44,710	12,460
Transfer to debt service fund	<u>7,827</u>	<u>7,827</u>	<u>7,826</u>	<u>(1)</u>
Total charges to appropriations	<u>40,077</u>	<u>40,077</u>	<u>52,536</u>	<u>12,459</u>
<b>Ending Budgetary fund balance</b>	<u>\$ 44,644</u>	<u>\$ 44,644</u>	<u>\$ 36,788</u>	<u>\$ (7,856)</u>

**Village of Pellston**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**For the Year Ended February 28, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Over/(Under)</u>
<b>Beginning of year fund balance</b>	\$ 21,396	\$ 21,396	\$ 21,557	\$ 161
<b>Resources (inflows)</b>				
State shared revenues	35,000	35,000	32,449	(2,551)
Interest income	<u>250</u>	<u>250</u>	<u>113</u>	<u>(137)</u>
Amounts available for appropriation	<u>56,646</u>	<u>56,646</u>	<u>54,119</u>	<u>(2,527)</u>
<b>Charges to appropriations (outflows)</b>				
Public works	23,950	23,950	35,401	11,451
Road repair and maintenance	<u>7,827</u>	<u>7,827</u>	<u>7,826</u>	<u>(1)</u>
Transfer to debt service fund				
Total charges to appropriations	<u>31,777</u>	<u>31,777</u>	<u>43,227</u>	<u>11,450</u>
<b>Ending Budgetary fund balance</b>	<u>\$ 24,869</u>	<u>\$ 24,869</u>	<u>\$ 10,892</u>	<u>\$ (13,977)</u>

**Village of Pellston**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Fire Fund**  
**For the Year Ended February 28, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Over/(Under)</u>
<b>Beginning of year fund balance</b>	\$ 73,090	\$ 73,090	\$ 53,170	\$ (19,920)
<b>Resources (inflows)</b>				
Federal grants	122,600	122,600	134,600	12,000
State shared revenues	1,730	1,730	730	(1,000)
Contributions from local units	-	-	43,200	43,200
Charges for services	48,000	48,000	45,033	(2,967)
Transfer from General Fund	20,000	20,000	20,000	-
Interest income	500	500	618	118
	<u>265,920</u>	<u>265,920</u>	<u>297,351</u>	<u>31,431</u>
Amounts available for appropriation				
<b>Charges to appropriations (outflows)</b>				
Public safety	208,880	208,880	228,926	20,046
Debt service	40,000	40,000	62,542	22,542
	<u>248,880</u>	<u>248,880</u>	<u>291,468</u>	<u>42,588</u>
Total charges to appropriations				
<b>Ending budgetary fund balance</b>	<u>\$ 17,040</u>	<u>\$ 17,040</u>	<u>\$ 5,883</u>	<u>\$ (11,157)</u>

**Village of Pellston**  
**Required Supplemental Information**  
**Defined Benefit Pension Plan**  
**Trend Information**  
**For the Year Ended February 28, 2005**

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$ 94,207	\$ 112,429	\$ 18,222	84%	\$ 53,481	34%
12/31/03	106,019	118,263	12,244	90%	58,638	21%
12/31/04	117,451	141,067	23,616	83%	59,413	40%

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
02/28/03	\$ 794	100%
02/29/04	1,645	100%
02/28/05	1,445	100%



**Hill • Schroderus & Co., LLP**  
Certified Public Accountants & Consultants

September 16, 2005

To the Village Council  
And Village President  
Of the Village of Pellston

In planning and performing our audit of the financial statements of the Village of Pellston, for the year ended February 28, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Village of Pellston's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

- All records should be held and maintained by the Village Clerk. Currently records are being held by public safety officials, Council officials, and the Treasurer, which should all be in the care of the Village Clerk. This situation can cause problems and errors in the recordkeeping.

This report is intended solely for the information and use of the Village Council and management and is not intended to be and should not be used by anyone other than these specified parties.

*Hill Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan